

What Can Agriculture Hope To Achieve from the WTO Negotiations?

Rita Derrick Hayes
Office of the U.S. Trade Representative

Thank you Dan. It's an honor and a pleasure to be here today. My job requires me to cover all sectors of the U.S. economy, but agriculture is particularly important to me in our work at the WTO, so I am pleased to have the chance to participate in this conference.

I would like to begin by giving you my view of the progress we have made in the negotiations on agriculture at the WTO. In summary, we have an active process underway in Geneva, as reflected in the Director General's remarks, where the majority of WTO members are focusing on substantial reforms for international agricultural trade. The United States has taken the lead in calling for reforms -- cutting tariffs, reducing trade-distorting subsidies -- and we have a lot of support from other countries. But we are still a long way from the finish and getting a good result will require tough negotiating in Geneva.

Importance of Trade to U.S. Agriculture

As I noted, agriculture is one of my favorite topics owing both to my background and because trade is vital to the health of U.S. agriculture. In my capacity representing the United States at the WTO, I make it clear that we have strong interest in improving the trading system for agriculture. American farmers and ranchers are the most competitive and technically advanced in the world. We produce far more than we can ever eat; and we therefore must have the ability to export to the 96% of humanity that lives beyond our borders if American farm families are to prosper. I realize this audience appreciates the importance of opening markets worldwide. This is clear in the record, with nearly one in three American farm acres producing for foreign markets, with U.S. export sales exceeding \$50 billion last year, and the fastest growing markets beyond our borders.

President Bush recognized this when he identified the vital role of open trade so as to "lead toward a world that trades in freedom" as a top priority in his first major international address. This is founded on the understanding that expanded trade -- imports as well as exports -- improves the well being of Americans. The converse is also true, restrictions on trade have victims: farmers, consumers, companies, and the broader economy all hurt when denied access to customers or denied access to supplies. Trade agreements which reduce these restrictions, such as the NAFTA and the Uruguay Round, have contributed to the longest period of economic growth in U.S. history.

We have a lot of work to do for American agriculture to take full advantage of international trade. While the WTO has made a good first step in bringing certainty, transparency, and competition to world agricultural trade, in too many countries and for too many products, market barriers and extravagant subsidy policies are defining terms of trade -- rather than competitiveness and consumer choice. Compared to some of our major competitors, the openness of the American market is high and our trade barriers are low, so when we negotiate free trade agreements with our counterparts we almost always open other markets more than we must change our own. Let me give you three

examples:

- (1) in agriculture, the average tariff that can be levied on imports is around 60% (the U.S. average is around 12%),
- (2) the EU, which accounts for over 90% of expenditures on direct export subsidies, spends \$7 billion on subsidized exports a year (the U.S. spends around \$100 million), and
- (3) trade-distorting domestic support, policies that reward producers for increasing production, is still too prevalent. The EU can provide over \$60 billion annually and Japan over \$35 billion annually. Our maximum is \$19 billion.

The effect of these distortions is astounding. USDA's Economic Research Service reported that global agricultural policy distortions have reduced world agricultural prices by 12 percent. Over the long term, these distorting policies would reduce consumer purchasing power by \$56 billion annually.

Progress to Date on WTO Agriculture Negotiations

To address these distortions, the United States has taken the lead in WTO negotiations underway in Geneva. With broad bipartisan consensus and strong industry support, the United States submitted the first comprehensive agricultural proposal in Geneva last June. The U.S. proposal focuses on bringing down high tariffs and trade-distorting subsidies levels world-wide, calling for elimination of export subsidies, substantial reduction or elimination of tariffs, and substantial reductions in trade-distorting domestic support.

In Geneva, the U.S. proposal was very well received: I have heard from a number of other countries that a strong and principled U.S. proposal was just the right way to get the agriculture negotiations moving. In my work with Ambassadors from Cairns agriculture exporting countries, the EU, Japan, India and Egypt -- to mention just a few -- agriculture is always part of our discussion. The United States is determined to work with all WTO members to achieve our objectives.

WTO members are wrapping up the first phase of negotiations, with over 30 negotiating proposals on the table. In addition, extensive background work by Mike Moore's staff has provided a solid analytical base for countries to move forward into a more intensive phase of negotiations. We are looking forward to closing the first phase of the negotiations next month in Geneva, where WTO members will take stock of progress in the negotiations and lay out a work plan for the next phase. I expect WTO members to intensify these technical discussions and begin the work of building consensus for specific reforms.

The United States is not the only country to lay out its vision for agricultural trade reform. The Cairns Group of 18 agricultural exporting countries has identified similar reform objectives, focusing on high tariffs and high subsidy levels. I am pleased to report that developing countries have been very active in the negotiations, a marked departure from previous GATT negotiations, and have joined the call for substantial reforms. These countries are focusing in particular on high subsidy and tariffs in developed countries, trying to create export opportunities for their farmers by leveling the playing field. It has been our job to remind them that we expect reforms from all countries, and that we view a number of these countries as key markets for our products.

The European Union has also taken a very active role in the negotiations. On the positive side, the EU recognizes that reforms through tariff reductions and subsidy cuts cannot be avoided. This is a far cry from European approaches in previous negotiations. On the negative side, the EU is not nearly

as ambitious as we are when calling for reform. And we feel the EU is trying to use this negotiation to gain legitimacy for concepts such as “precaution”, animal welfare, and multifunctionality -- which could open the door for new trade barriers. The EU is also doing its best to focus reforms on U.S. agricultural policies, using the old adage that the best offense is a good defense. Finally, while we have yet to see any helpful reform offers from Japan, the Japanese government has taken a very systematic approach to the negotiations, recognizing that it will come under serious pressure to make difficult reform commitments.

This all adds up to good progress after a year of work in the WTO: the range of views are on the table, countries are focusing on reform proposals, and the challenges each country faces to reaching an agreement are becoming evident. Our task now is to intensify the work in agriculture, where we clarify positions and begin to narrow the differences over the next year. I am confident that we will be able to establish a pragmatic approach to the work in Geneva, as all countries recognize the existing commitment for the mandated negotiations in agriculture and services -- even if not all countries can recognize the need to rationalize agricultural policies that are extracting such high costs from their economies and citizens. We are looking forward to more focused technical discussions of reform proposals in each of the areas of market access, export competition, and domestic support, recognizing we will also have to take into account non-trade concerns and special and differential treatment for developing countries.

Conclusion

Let me conclude by noting that we are not alone in calling for agriculture reform in the WTO. That’s good, because the world agricultural markets are crying out for reform and U.S. agriculture should be a primary beneficiary from reform.

I am excited about what we can accomplish in the WTO, and that reform in the WTO can complement other trade initiatives underway, including the FTAA and bilateral negotiations. Our experience shows that complicated negotiations like the Uruguay Round and the NAFTA take time and effort, but I believe our economy and our world are a better place because of them. This past year, we have made good progress preparing the ground. Down the road I can see the promise of a meaningful harvest.